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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, A. D. 1935.

No. 11.

THE CHANDLER & PRICE COMPANY,
Petitioner,

vs.

BRANDTJEN & KLUGE, INC., and JOSEPH FREEMAN, INC.,
Respondents.

BRIEF FOR PETITIONER.

WALLACE R. LANE,
JOHN F. OBERLIN,
Counsel for Petitioner.

Eastman Bros., Inc., Law Printers, 342 S. Dearborn St., Chicago.

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Respondents.

BRIEF FOR PETITIONER.

Statement of the Case.

The questions here involved have to do with the proper interpretation and applications of Federal Equity Rules 30 and 37.* They are:

* This Court on April 29, 1935 (R. 47), took jurisdiction of this case (under Sec. 347, U. S. C. Title 28) to review a decree of the Circuit Court of Appeals for the Second Circuit entered February 4, 1935 (R. 38). This decree affirmed a decree of the District Court for the Eastern District of New York dismissing petitioner's counterclaim. The petition for certiorari set forth among other jurisdictional grounds, a conflict between the Circuit Courts of Appeals for the Second and Seventh Circuits as to the interpretation of these rules.

Equity Rules 26, 30, 31 and 37 cited are printed in full in Appendix.

1. Are the provisions of Federal Equity Rule 30 relating to counterclaims restricted to counterclaims which *must* or *may* be pled by an original defendant in contradistinction to one who has been permitted to intervene as and has been made a *defendant* by order of court under Equity Rule 37?

2. Where the user of a single device has been sued in equity for infringement of a patent and the manufacturer thereof has, with leave of court, under Equity Rule 37, intervened as *a defendant*, and assumed the entire defense to protect its interests, is such manufacturer a *defendant* under Equity Rule 30 which states that the answer—

> "**must*** state in short and simple form any counterclaim arising out of the transaction which is the subject matter of the suit"

and

> "**may** without cross-bill, set up any set-off or counterclaim against the plaintiff which might be the subject of an independent suit in equity against him"?

3. Where the user of a single device has been sued in equity for infringement of a patent and the manufacturer thereof has been permitted, under Equity Rule 37, to intervene and has intervened as a defendant, and assumed the entire defense in order to protect its interests, *may* or *must* such defendant manufacturer assert in its answer, under Equity Rule 30, a counterclaim which it has against plaintiff for infringement of a different patent owned by such defendant relating to the same subject matter?

Respondent, Brandtjen & Kluge, Inc., filed a bill of complaint April 30, 1934, against Joseph Freeman, Inc., of Brooklyn, New York, in the United States District Court for the Eastern District of New York.

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* Emphasis ours throughout this brief except where otherwise indicated.

charging infringement of United States Letters Patent No. 1,363,200, dated December 21, 1920, on account of the use of a certain automatic platen printing press (R. 2), which it purchased from petitioner, The Chandler & Price Company, of Cleveland, Ohio, who manufactured it (R. 7).

On June 22, 1934, petitioner, with the consent and approval of defendant* (R. 10, 11), petitioned for leave—

> "to intervene as a defendant, with leave to file an answer or other defense, and for such other and further relief as to the court seems just,"

on account of its great interest in the results of the controversy and because the defendant was (R. 10)—

> "merely a nominal defendant and has not sufficient interest in the result of this suit to properly defend the same on its own account."

After hearing, the District Court (Judge Inch) ordered (R. 14)—

> "that said The Chandler & Price Company be and it hereby is granted leave to intervene in said suit *as a party defendant,*"

and stated in his opinion (R. 14) that said company will—

> "be bound by the decree in this suit."

July 9, 1934, petitioner and Joseph Freeman, Inc. (original defendant), joined in and signed an answer (R. 1, 14), denying validity and infringement of the patent in suit. As a part of the answer, petitioner set up a counterclaim charging respondent with infringing another patent solely owned by it. The patent sued upon by respondent and the one asserted against it by petitioner relate to the same subject-matter (R. 29) and (R. 35)—

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* Omitted from record (R. 11, fol. 16) in printing. See record, as filed, p. 16.

"a single press may, and does, embody the features claimed in both patents as an invention."

This counterclaim admittedly (R. 37) is—

"in subordination to, and in recognition of, the propriety of the main proceeding."*

July 20, 1934 (R. 1, 25), respondent moved to dismiss the counterclaim, asserting that the intervening defendant had no right to file it and that it would result in confusing and delaying the original cause of action. It also moved to vacate Judge Inch's order permitting petitioner to intervene *as a defendant*.

The District Court (Judge Campbell) sustained respondent's motion to dismiss the counterclaim (R. 26-28) and decreed the dismissal without prejudice (R. 28). Judge Campbell (R. 26) referred the motion to vacate Judge Inch's order permitting intervention to that judge, but plaintiff did not again press this motion, and *petitioner* still *remains in the case as a defendant by virtue of Judge Inch's order of June 30, 1934* (R. 14).

Petitioner appealed (R. 31) to the Circuit Court of Appeals for the Second Circuit from the decree dismissing the counterclaim. This decree was affirmed February 4, 1935 (R. 38); petition for rehearing denied February 25, 1935 (R. 44).

Both the District Court and the Circuit Court of Appeals held that as the counterclaim introduced an issue not available to the original defendant, it could not be set up by the intervening defendant under

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* The pertinent portion of Equity Rule 37 reads:

"Anyone claiming an interest in the litigation may at any time be permitted to assert his right by intervention, but the intervention shall be in subordination to, and in recognition of, the propriety of the main proceeding."

Equity Rule 30.* The latter court, however, in its opinion stated (R. 37, 38):

> "It is true that the language of the Rule will bear the opposite construction; 'defendant' is apt enough to include 'intervening defendant.' It is also true that the Thirty-seventh Rule does not stand in the way."
>
> "Having to choose here between an interpretation which will let in all such counterclaims or shut them all out, we choose the second."

Grounds On Which Petitioner Was Made a Defendant.

The grounds on which Judge Inch granted petitioner leave to intervene and *made it a defendant* were duly sworn to by petitioner's president. These were not challenged by respondent. They show the common interest in the subject-matter of the bill and counterclaim, and that the petitioner is the real party against which respondent's attack is directed. These grounds are (R. 7):

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* The pertinent portions of Equity Rule 30 read:

"The defendant by his answer shall set out in short and simple terms his defense to each claim asserted in the bill, ... The answer may state as many defenses, in the alternative, regardless of consistency, as the defendant deems essential to his defense.

"The answer *must* state in short and simple form any counterclaim arising out of the transaction which is the subject-matter of the suit, and *may*, without cross-bill, set up any set-off or counterclaim against the plaintiff which might be the subject of an independent suit in equity against him, and such set-off or counterclaim, so set up, shall have the same effect as a cross-suit, so as to enable the court to pronounce a final decree in the same suit on both the original and the cross-claims.

"When in the determination of a counterclaim complete relief can not be granted without the presence of parties other than those to the bill, the court shall order them to be brought in as defendants if they are subject to its jurisdiction. (As amended May 4, 1925)."

(a) That petitioner was the manufacturer of the device complained of in the bill of complaint, namely, *one* automatic platen printing press, and had sold it to the defendant;

(b) That subsequently to placing such device on the market petitioner had on a number of occasions been advised by customers of threats made by respondent, either directly or indirectly, that suit for infringement would be brought against them if they purchased or used such device, with the result that petitioner had in a number of instances given bonds to purchasers of such devices;

(c) That the notice of infringement sent to defendant preliminary to the filing of such bill was referred to petitioner whose counsel inquired of respondent's counsel as to whether this notice was given merely as prelude to bringing suit, after having selected the Eastern District of New York as the preferred tribunal, rather than bringing suit directly against petitioner in the Northern District of Ohio, and in reply was informed by counsel for respondent by letter of April 10, 1934, that decision had been reached to file suit against defendant and adding:

> "The present condition of the calendar of the District Court of Brooklyn indicates that a suit for patent infringement can be reached for trial there at an earlier date than in most other districts, and that was a factor which influenced us in concluding to file suit in Brooklyn;"

(d) That in accordance with the promise of such letter respondent's counsel, under date of May 4, 1934, served on petitioner's counsel a copy of the bill of complaint as filed;

(e) That respondent threatened to bring suits against the users of said machines, thereby greatly in-

juring petitioner's business and unnecessarily harassing its customers;

(f) That respondent had never sued petitioner charging it with infringing the patent of the bill of complaint, although petitioner's device had been exhibited to respondent's counsel and with respondent's knowledge was marketed throughout the United States long before the filing of the bill;

(g) That the defendant—

> "is merely a nominal defendant and has not sufficient interest in the result of this suit to properly defend the same on its own account;" and

(h) That petitioner's intervention in this suit was necessary to the protection of its interests.

Petitioner Insists:*

(1) That the provisions of Equity Rule 30 relating to counterclaims are *not restricted to counterclaims which must or may be pled by an original defendant* in contradistinction to *one who has been permitted to intervene as and has been made a defendant* by order of court under Equity Rule 37;

(2) That Equity Rule 30 makes no distinction between a defendant named in the bill and one who became a defendant by intervention with leave of court;

(3) That petitioner became a defendant within the meaning of Equity Rule 30 by virtue of the proceedings on its petition for leave to intervene under Equity Rule 37 and the filing of the answer;

(4) That it will, therefore, be bound by the decree in this suit;

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* Assignment of Errors, R. 32, ff. 50, 51.

(5) That it, rather than the original defendant, is the real party in interest in this suit;

(6) That the counterclaim set forth in the answer should be permitted so that the entire controversy between the real parties in interest can be settled in a single suit as contemplated by Equity Rules 30 and 37.

Specification of Errors.

The Circuit Court of Appeals erred in the decision complained of:

1. In affirming the decree of the District Court dismissing the counterclaim.

2. In failing to reverse the decree of the District Court dismissing the counterclaim and to direct that court to enter an order vacating such decree and denying plaintiff's motion to dismiss the counterclaim.

3. In misinterpreting and misapplying Federal Equity Rule 30, holding that petitioner was not entitled to set up the counterclaim of the answer.

Summary of Argument.

The decision of the Circuit Court of Appeals conflicts with the decision of the Circuit Court of Appeals for the Seventh Circuit upon similar facts in *U. S. Expansion Bolt Co.* v. *H. G. Kroncke Co.*, 234 Fed. 868, as to the interpretation and application of Federal Equity Rules 30 and 37, and permitting a counterclaim such as petitioner seeks to assert here. This is admitted in the opinion of the former court. The United States District Court for the Northern District of Cali-

fornia has also been of two minds as to the interpretation of these rules as indicated in *Leaver* v. *K & L. Box & Lumber Co.*, 6 F. (2d) 666, 667.

Rejecting the precedent of the *Expansion Bolt* case, the court below, upon a so-called "balance of advantage," adopted a conflicting view (mostly dicta) of a group of cases based largely upon reasoning applicable only before the adoption of the present Federal Equity Rules, that the counterclaim introduced an issue not available to the original defendant and could not, therefore, be set up under Equity Rule 30; notwithstanding its recognition that the word "defendant" in that rule (R. 37)

> "is apt enough to include" an "intervening defendant"

and that

> "the Thirty-seventh Rule does not stand in the way,"

and repeated liberal interpretation of both rules by this court.

This holding, in effect, limits the scope of Equity Rule 30 by importing into it a distinction between a *defendant* permitted to intervene by order of court and an *original defendant*, and the saving of an exercise of discretion by the court to restrict the former to a counterclaim available to the latter. Such distinction is not expressed in the rule and is inconsistent with its scope and purpose as defined by this court in *American Mills Co.* v. *American Surety Co.*, 260 U. S. 360; *Moore* v. *New York Cotton Exchange*, 270 U. S. 593, 610; *Leman* v. *Krentler-Arnold Co.*, 284 U. S. 448; *General Electric Co.* v. *Marvel*, 287 U. S. 430. Compare Equity Rule 31.

The interpretation of Equity Rule 30 upon which the decision of the court below proceeds is incompatible with the administration of justice for it would impede the speedy and complete determination of the rights of the real parties in interest in a suit in equity; e. g., in a trade controversy of the character here presented where the bill of complaint presents but one phase of the matter in controversy and petitioner intervened to protect its trade in self-defense, so to speak, to present the broader aspects of the matter and is in reality a defendant *in invitum*, subject to all provisions of that rule.

ARGUMENT.

Point I.

The Interpretation of Equity Rule 30 Adopted By the Circuit Court of Appeals in This Case Is Inconsistent With the Plain Language of That Rule and Conflicts With the Decision of the Circuit Court of Appeals For the Seventh Circuit in the Expansion Bolt Case Interpreting and Applying That Rule Consistently With the Decisions of This Court in the American Mills Case and Later Cases.

Upon substantially similar facts both the District Court for the Western District of Wisconsin and the Circuit Court of Appeals for the Seventh Circuit in *United States Expansion Bolt Co.* v. *H. G. Kroncke Hdw. Co. et al.*, 216 Fed. 186, affirmed 234 Fed. 868, decided the precise issue here presented directly contrary to the decisions of the courts below.

In that case as in this, the manufacturer, a stranger to the jurisdiction, was permitted to and did intervene

as a defendant in a suit in equity against a purchaser of its product and joined with the original defendant in an answer setting up proper defenses and a counterclaim charging plaintiff with infringement of a patent owned by the manufacturer, and assumed the defense to protect its interests.

There as here, the original defendant was merely a nominal defendant and had not sufficient interest in the result of the suit to defend it properly on its own account; and this was recognized by plaintiff when suit was instituted and a copy of the bill of complaint furnished (in the *Expansion Bolt* case, to the manufacturer; in the instant case, to its attorneys).

In each case the plaintiff moved to dismiss the counterclaim on grounds including those now under consideration, objection to the ruling of the lower court was preserved in proper assignments of error on appeal to the Circuit Court of Appeals and the identical questions briefed, argued and submitted to the Circuit Court of Appeals (see reference in lower court's opinion to brief in *Expansion Bolt* case, (R. 37) reproduced, *infra*, pp. 33-55, inc.).

In the *Expansion Bolt* case the District Court overruled the motion to dismiss the counterclaim; the case, including the issues raised by the counterclaim, was tried; the counterclaim considered and the case decided on the merits; and on appeal the entire case was reviewed and the decision of the District Court affirmed as to the issues of patent infringement presented by the bill and counterclaim. Both courts necessarily passed on the questions raised, including the propriety of a counterclaim by a defendant who intervened as distinguished from an original defendant, and if there is anything obscure in the opinion of

either court in the *Expansion Bolt* case on this point, as the court below seems to think, that obscurity can only signify that in the *Expansion Bolt* case, both courts, interpreting and applying Equity Rule 30 in harmony with later decisions of this court as they did, were impressed with the obviousness of that interpretation of the rule which would permit matters of the character presented by the counterclaim as well as by the bill of complaint in that case—and in this case—to be disposed of in a single decree in one suit.

In the instant case both the District Court and the Circuit Court of Appeals arrived at a contrary conclusion. Rejecting the precedent of the *Expansion Bolt* case, as to the interpretation of Equity Rule 30, the court below, though recognizing (R. 37)

> "that the language of the Rule will bear the opposite construction; 'defendant' is apt enough to include 'intervening defendant',"

and that

> "the Thirty-seventh Rule does not stand in the way,"

upon a supposed "balance of advantage" adopted "the flatly contra" view of certain cases harking back to the discarded practice of the cross-bill under the old equity rules (and of admittedly uncertain reasoning), that a party who has become a defendant in a suit in equity by the route of intervention may not assert a counterclaim against a plaintiff which would not otherwise have been available to an original defendant. It thus, in effect, usurped a function of this court, and rewrote Equity Rule 30, promulgated by this court, to restrict its provisions relating to counterclaims in a manner contrary to the scope and purpose of the rule as defined by this court.

We know of no decision of this court interpreting Rule 30, or any other Equity Rule, which indicates a distinction between a *"defendant"* and an *"intervening defendant"* in respect to the filing of a counterclaim. The liberal doctrine of interpretation of the Equity Rules in general and Rule 30 in particular announced and uniformly adhered to by this court in fact points the other way.

In *American Mills Co.* v. *American Surety Co.*, 260 U. S. 360, this court said (p. 364):

> "The new Equity Rules were intended to simplify equity pleading and practice by limiting the pleadings to a statement of ultimate facts without evidence and by uniting in one action as many issues as could conveniently be disposed of."

Again in that case this court said of that rule (p. 365):

> "The rule should be liberally construed to carry out its evident purpose of shortening litigation."

In keeping with the policy thus expressed, counterclaims asserting causes of action in equity have been freely allowed, including counterclaims on patents wholly unrelated to the causes of action set forth in the bill of complaint. See *Wire Wheel Corp. of America* v. *Budd Wheel Co.* (C. C. A. 4), 288 Fed. 308, 309 (the late Chief Justice Taft sitting as Circuit Justice).

Further departure from the old practice of the cross-bill in the application of the doctrine of the *American Mills* case to counterclaims upon patents unrelated to those of the bill of complaint under Equity Rule 30 appears in *Leman* v. *Krentler-Arnold Co.*, 284 U. S. 448, and *General Electric Co.* v. *Marvel*, 287 U. S. 430, holding that the plaintiff by the filing of his bill of complaint submits himself (284 U. S. 448, 451)

> "to the jurisdiction of the court with respect to all the issues embraced in the suit including those pertaining to the counterclaim of the defendants,"

irrespective of whether the counterclaim arise out of the subject-matter of the plaintiff's suit or contain allegations of the jurisdictional requisites of Section 48 of the Judicial Code (28 U. S. C. Sec. 109).

The amendment of Rule 30 in 1925 to provide for the bringing in of additional parties,

> "when in the determination of a counterclaim complete relief cannot be granted without the presence of parties other than those to the bill,"

was in keeping with the doctrine of the *American Mills* case and these later decisions of this court.

An interpretation of Rule 30 including a defendant admitted by intervention, without distinction in respect to the filing of a counterclaim, not only requires no expansion of that doctrine but is fully consistent with the plain language of the rule.*

The inconsistency of the interpretation of Rule 30 adopted by the court below is convincingly shown by its opinion. It admits the susceptibility of Rule 30 to the interpretation for which petitioner contends and that so interpreted petitioner's counterclaim is proper; it admits the desirability of importing into the rule the saving of an exercise of discretion by the court permitting a counterclaim by the intervener in cases where (R. 36):

> "the intervener is practically forced into the suit,"

as here, but states that (R. 36)

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* Compare the English chancery practice treating an intervening defendant as if originally made a defendant. Order 16, Rule 13 of the Rules of the Supreme Court. See Appendix, *infra*, p. 31. A counterclaim by an intervening defendant was permitted in *Montgomery* v. *Foy* (1895), 2 Q. B. 321.

> "there is no warrant for such a treatment of the rule as it stands";

notwithstanding that (R. 37),

> "upon what we deem to be the balance of advantage,"

it does in fact interpret the rule adversely to petitioner's contention by indulging in just "such a treatment of the rule." For it imports into the rule both a qualification distinguishing a defendant, who entered by intervention, from an original defendant and, in effect, the saving of an exercise of discretion by the court to limit a defendant who has entered by the route of intervention to a counterclaim available to an original defendant, there being no language in the rule susceptible of such interpretation. Thus that court in effect does what it disapproves as unwarranted.

Again, if the language of Rule 30

> "is apt enough to include 'intervening defendant'"

and is barren of any contrary indication, and

> "the Thirty-seventh Rule does not stand in the way,"

there would seem to be no occasion for invoking a "balance of advantage" as a controlling factor, no justification for differently interpreting Rule 30 as if Rule 37 did stand in the way.

Point II.

Analysis of the Cases Cited By the Court Below on the Side of Its Holding Indicates That They Do Not in Fact Warrant It.

Of the six cases cited in the opinion on the side of the court's holding only one can fairly be said to be pertinent in fact and that reverts to the obsolete practice of

the cross-bill. Two antedate the adoption of the Equity Rules and reflect an old doctrine. The others contain only dicta.

Curran, et al. v. *St. Charles Car Co.* (E. D. Mo.), 32 Fed. 835 (1887), in which the court denied leave to an intervening defendant to file a cross-bill for unfair competition on the ground that the equitable relief sought was not available to the original defendant, was decided some twenty-five years before the adoption of Equity Rule 30 and ought not to be followed in interpreting or applying that rule, which eliminated the cross-bill of the earlier practice.

Powell et al. v. *Leicester Mills* (E. D. Pa.), 92 Fed. 115 (1899), also decided long before the adoption of the present Equity Rules, denied intervening defendants leave to amend their answer to set up a defense not available to the original defendants. The opinion does not indicate whether or not the particular defense would have been proper subject-matter of a counterclaim under Rule 30, and the case cannot be regarded as affecting the interpretation of that rule.

Atlas Underwear Co. v. *Cooper Underwear Co.* (E. D. Wis.), 210 Fed. 347, did not decide the point now under consideration. True, leave to intervene was sought by persons desiring to set up a counterclaim for patent infringement, but the court ruled that they had no such interest in the subject of the suit as to entitle them to be admitted as parties defendant, and merely adverted to the possibility that if the original defendant (p. 355):

> "were alone seeking to assert a counterclaim of the character noted, it might present the interesting question whether it should be allowed in view of the ruling of this court in the recent case of *Adamson* v. *Shaler*" (E. D. Wis.), 208 Fed. 566.

Moreover, the ruling in the case referred to was rejected by this court in the *American Mills* case.

Allington et al. v. *Shevlin-Hixon Co.* (D. Del.), 2 F. (2d) 747, likewise did not decide the point now presented. The court granted plaintiffs' motion to dismiss the bill and denied the manufacturer leave to intervene because it did not seek to become a party to the cause to obtain affirmative relief therein until after the motion to dismiss the bill had been filed. Said the court (p. 749):

> "In the case at bar Burns did not seek to become a party to the cause or to obtain affirmative relief therein until after plaintiffs' motion to dismiss the bill had been filed. I think he comes too late."

It expressly refrained from determining the right otherwise of the manufacturer to secure affirmative relief that was not available to the original defendant, although suggesting a query in that respect.

Chester v. *Life Association of America* (W. D. Tenn.), 4 Fed. 487 (1880), cited in *Allington* v. *Shevlin-Hixon Co.* (D. Del.), 2 F. (2d) 747, was decided more than thirty years before the adoption of the present Equity Rules. Denying intervention upon the mere refusal of consent by the original plaintiff, it reflects a doctrine quite the contrary of Rule 37, which must be considered as discarding that doctrine. The case should be regarded as of historical interest only.

Leaver v. *K. & L. Box & Lumber Co.* (N. D. Cal.), 6 F. (2d) 666, limited an intervening manufacturer seeking to interpose a counterclaim based on unfair competition to such affirmative relief as was open to the defendant, citing *Allington* v. *Shevlin-Hixon Co.* (D. C.), 2 F. (2d) 747; *Atlas Underwear Co.* v. *Cooper Underwear Co.* (D. C.), 210 Fed. 347; and *Curran* v. *St. Charles Car Co.* (C. C.), 32 Fed. 835; and characterized as erroneous the earlier decision of the same court to the contrary in the apparently unreported case of

Leaver v. *Fox*. Obviously unsound and provincial is the statement of the court that (p. 668)—

> "the reasons for a rule limiting intervening defendants to such affirmative relief as is open to the defendant of record are particularly cogent in the case before us, where, if permitted, a stranger to the original proceeding will convert a simple action for infringement against a single vendee into a suit for damages to the business of a manufacturer whose field of operations apparently is the whole United States, and whose interest here is only incidental."

Rather than incidental, the interest of the manufacturer is vital, as pointed out elsewhere in this brief.

Borne Scrymser Co. v. *Gaffney Mfg. Co.* (W. D. S. C.), 5 F. Supp. 405, affirmed (C. C. A. 4), 68 F. (2d) 104, struck from the original defendant's answer a counterclaim charging infringement of a patent acquired subsequent to the filing of the bill and denied leave to intervene to the owner of the legal title to the patent of the counterclaim on the ground that neither the petition nor the proposed bill of intervention concerned anything but the subject-matter of the counterclaim. In other words, the petition to intervene failed to show such an interest in the controversy as to comply with Equity Rule 37. The case is clearly not in point, for that intervener had an interest in the controversy and that the patent of intervener's counterclaim was acquired prior to the filing of the bill here are not questioned.

Surely such cases reverting as they do to the discarded practice of the cross-bill, should not be viewed as pointing the way to the determination of this important question of practice.

Point III.

The Interpretation of Equity Rule 30 Adopted By the Court Below Is Incompatible With the Administration of Justice in Federal Equity Cases.

The question presented is one of more than mere private rights. Pertaining as it does to an important question of practice, it involves the larger question of public rights. It is a matter of public policy how a controversy of this character, for example, shall be dealt with; whether narrowly and piecemeal, with perhaps too tender regard for the attacking litigant, or liberally with a view to expeditious, complete settlement.

Equity Rule 30 provides for the setting up of two types of counterclaim; one, permissible; the other, mandatory. In respect to these two types it makes no distinction between a defendant named in the bill and a defendant admitted by order of court. A defendant of the latter class equally with one of the former *may* set up a counterclaim of the first type and *must* set up

> "any counterclaim arising out of the transaction which is the subject-matter of the suit."

A defendant of either class, failing to set up a counterclaim of the second type, is subject to a plea of estoppel should he later assert it. Either, if in doubt, can only protect himself by setting up his counterclaim and obtaining a ruling of the court on the question. That is what petitioner here has endeavored to do.

Notwithstanding its adoption of an interpretation of Equity Rule 30 restricting an intervening defendant to a counterclaim available to an original defendant the court below expressly recognized (R. 36)

> "that at times the intervener is practically forced

> into the suit, as much as though the plaintiff sought him out and served him,"

and further acknowledged (R. 36) that

> "conceivably it might be desirable to give the court discretion in such cases to treat the situation as though the plaintiff had joined him *in invitum.*"

Thus that court apparently would allow a counterclaim by an intervening defendant under some circumstances, in the exercise of its discretion, if it were not erroneously persuaded by conception of a so-called

> "balance of advantage"

to an interpretation of Equity Rule 30 excluding such an exercise of discretion. The instant case should be regarded, we submit, as affording an example of a type of case not only calling for the favorable exercise of discretion, if the matter were discretionary under that rule, but actually falling within the category of cases comprehended by that rule in which the filing of a counterclaim by even an intervening defendant is clearly permissible, if not, indeed, mandatory.

The real controversy is a trade controversy. Respondent and petitioner are competitors. By suing a user of petitioner's device respondent has questioned petitioner's right to make, sell and use the invention of its patent and the correlative right to exclude others from so doing, in a concrete instance. If petitioner is to protect that right, it cannot sit back and indulge the sniping tactics of a competitor exemplified in the bill of complaint. To do so would permit its competitor to whittle away its trade and patent rights. It has no alternative but to defend the suit and promptly assert its rights, and should be regarded as

in the case *in invitum*. See *Leary* v. *United States*, 224 U. S. 567, 574, 576, and *Aetna Casualty & Surety Co.* v. *American Surety Co.* (C. C. A. 4), 64 F. (2d) 577, 582, recognizing an absolute right of intervention on the part of one having a direct and immediate interest in the subject of the suit.

And adequate defense and proper assertion of its rights on the part of the petitioner include the presentation of the counterclaim which it has against the respondent for infringement of its patent upon a feature of the device which respondent has attacked. Rule 30 seems to permit it if it does not require it. *U. S. Expansion Bolt Co.* v. *Kroncke Hardware Co.* (D. Wis.), 216 Fed. 186; aff'd (C. C. A. 7), 234 Fed. 868.

> "The transaction which is the subject-matter of the suit"

in a case such as this, for example, where the manufacturer of the accused device, the real party in interest, with leave according to accepted practice, has become a defendant and assumed the defense, may be regarded as embracing more than the mere use of such device by the defendant designated in the bill of complaint.

A step toward recognition of this is found in the opinion of the Circuit Court of Appeals (R. 35):

> "It is to be assumed that a single press may, and does, embody the features claimed in both patents as an invention."

As to this common subject-matter, which that court thus says embodies the features of both patents, respondent claims the right to make, sell and use and to exclude defendant, and, in effect, petitioner under the patent of the bill. Likewise, petitioner claims the

right to make, sell and use this common printing press under the patent of the counterclaim and to exclude plaintiff from so doing. A single question may thus be said to be presented, namely, who has the right to make, sell and use the press involved, respondent under the patent of the bill, or petitioner, and through it defendant under the patent of the counterclaim? This question can only be answered by permitting the counterclaim to stand and letting the case go to a single decree on that one issue.

Moore v. *New York Cotton Exchange*, 270 U. S. 593, 610, is pertinent:

> " 'Transaction' is a word of flexible meaning. It may comprehend a series of many occurrences, depending not so much upon the immediateness of their connection as upon their logical relationship."

If, as Judge Tuttle said in permitting an intervening defendant to set up a cross-complaint seeking affirmative relief against another defendant in *United States* v. *Boynton* (E. D. Mich.), 297 Fed. 261, 268,

> "the very facts relied on by the plaintiff in support of the decree sought by it might also entitle the interveners to the relief prayed by them,"

why under converse circumstances should not a defendant who entered by intervention, as here, be permitted to set up a counterclaim seeking affirmative relief against plaintiff?

To assert its patent in an independent suit in another jurisdiction would involve a seemingly unnecessary additional suit, complicating and extending rather than simplifying and shortening litigation of what is in reality a single controversy.

The right of defendant, a purchaser of the press in question from petitioner and its resulting license to use same may best be asserted in connection with the claim of right on the part of petitioner to a monopoly of the right to make and sell as well as use the press in question under the patent of the counterclaim. This is not giving to defendants any greater latitude than is given to a plaintiff under Equity Rule 26.

Petitioner, through its counterclaim, merely brings the controversy in these broader aspects before the court for settlement in a single decree and in a jurisdiction of respondent's own choosing. This course seems to be clearly within the scope and purpose of Rule 30 as interpreted by this court in the cases above cited. There is no showing to the contrary. That the controversy assumes greater proportions than respondent intended and embraces two patents instead of one ought not to be a controlling factor necessitating the dismissal of the counterclaim.

By filing his bill of complaint, under the Equity Rules a plaintiff is in court, not as arbiter of either parties or issues, but to meet such issues as *the court* in the application of those rules may deem proper. This is so whether the issues were introduced by plaintiff in his bill of complaint, or by a defendant named in the bill of complaint, or by a defendant admitted under order of court, in his answer or counterclaim, without distinction, for none is indicated by those rules or by statutes applicable.

In *Marconi Co.* v. *National Co.*, 206 Fed. 295, District Judge Chatfield of the Eastern District of New York pointed out that if a liberal construction of the rule renders it difficult to try together all the questions thus presented by bill and counterclaim (p. 302),

> "The court must ultimately determine what issues can be properly disposed of in a 'final judgment' in the suit and order severance accordingly."

Judge Chatfield in that case overruled a motion to strike out the counterclaim and concluded his opinion by saying:

> "In the present case, while difficulty is suggested by the nature of the subject-matter and the number of claims, it does not seem that for a trial without a jury greater difficulty would be found than in disposing of four suits in what might be termed a series, and there seems to be no reason, beyond the court's natural desire to simplify its work, for striking out the counterclaim in the present action. If it should appear that some connection of events brings this counterclaim or the cause of action upon the defendant's patents into the category of matters arising 'from the same transaction' as the plaintiff's own cause of action, then assuredly the court should not force the parties into the possible position of having their rights in the future shut off by the mandatory language of the first part of the section."

As Judge Mayer said in *American Brake Shoe & Foundry* v. *New York Rys. Co.* (S. D. N. Y.), 293 Fed. 612, 624:

> "Equity . . . is always alert to do what is just and fair, and in the light of new developments and experience meets new problems and new conditions with appropriate decrees."

The propriety of a counterclaim by one of several defendants, irrespective of any interest of other defendants therein, is inferred in Equity Rule 31—

> ". . . If the counter-claim is one which affects the rights of other defendants they or their solicitors shall be served with a copy of the same . . ."

Petitioner, having intervened as and become a defendant and assumed the defense of the cause asserted in the bill, will, of course, be bound by the decree. If the decree be adverse it may be compelled, under the holding of the court below, to discontinue the manufacture of the accused device while respondent proceeds to make its device without interruption pending a decree in another jurisdiction in a suit against respondent on the patent which petitioner would set up in its counterclaim, thus perhaps giving respondent an important, if temporary, trade advantage that would not arise if the counterclaim were permitted and both patents litigated in the same suit.

In *Gulf Smokeless Coal Co.* v. *Sutton, Steele & Steele* (C. C. A. 4), 35 F. (2d) 433,* plaintiff in a patent infringement suit was allowed to amend its bill of complaint to conform to the proof and to have an injunction against a stranger to the jurisdiction, brought into the suit at the trial on the ground that it had manufactured and installed the accused device and was under contract to defend any infringement suits against its customer (the original defendant) relating thereto.

The fact that petitioner here became a defendant by intervention would not prevent its being similarly dealt with. *Vogue Co.* v. *Vogue Hat Co.* (C. C. A. 6), 12 F. (2d) 991; cer. den. 273 U. S. 706. Indeed, intervention under Rule 37 imposes no distinguishing characteristic beyond "subordination to" and "recognition of the propriety of the main proceeding." And, if subject to liability to the plaintiff without restriction, due regard for the interests of all parties would seem to require that a defendant who entered by intervention should be treated as a defendant generally and en-

* Cer. den. 280 U. S. 609; re-affirmed 77 F. (2d) 439, holding the manufacturer liable generally for damages (trebled) and profits.

titled to avail himself of all the instrumentalities of defense at his command, affirmative as well as negative in character. See *Automotive Products Corp.* v. *Wolverine B. & S. Co.* (C. C. A. 6), 15 F. (2d) 745.

A defendant entering by intervention, furthermore, though the real party in interest as in the case of petitioner, if restricted to a counterclaim available to an original defendant, in addition to the burden of determining at its peril whether or not it has any counterclaim arising out of the transaction which is the subject-matter of the suit, under the ruling of the court below, must likewise determine whether or not that counterclaim is available to an original defendant; an added burden which he should not be required to bear.

Public policy dictates speedy and complete determination of the rights of the real parties in interest in litigation in the manner which petitioner is attempting to follow in this case. The practice for which petitioner contends not only permits complete determination of the matter in controversy in one suit, but conduces to the prevention of much litigation through the application of the doctrine of *Kessler* v. *Eldred*, 206 U. S. 285. It thus conforms with public policy.

Hart Steel Co. v. *Railroad Supply Co.*, 244 U. S. 294.

Brill v. *Washington R. & E. Co.*, 215 U. S. 527.

Great Northern R. Co. v. *General Railway S. Co.* (C. C. A. 8), 57 F. (2d) 457, 459.

Buckeye Incubator Co. v. *Boling* (C. C. A. 6), 46 F. (2d) 965, 966.

Directoplate Corp. v. *Huebner-Bleistein Patents Co.* (C. C. A. 7), 44 F. (2d) 783.

Stoehrer & Pratt Dodgem Corp. v. *Glen Echo Park Co.* (C. C. A. 4), 15 F. (2d) 558, 559.

Commercial Acetylene Co. v. *Avery Portable Lighting Co.* (C. C. A. 7), 159 Fed. 935; s. c. (E. D. Wis.), 152 Fed. 642.

Berliner Gramophone Co. v. *Seaman* (C. C. A. 4), 113 Fed. 750.

Union Steam Pump Co. v. *Manton-Gaulin Mfg. Co.* (D. Me.), 272 Fed. 773, 774.

Continuous, etc., Corp. v. *Eastern, etc., Co.* (E. D. N. C.), 264 Fed. 340.

Hewes & Potter v. *Meyerson* (S. D. N. Y.), 36 F. (2d) 1001, 1002.

Ide v. *Ball Engine Co.* (C. C. Ill.), 31 Fed. 901.

The court below grants that it is desirable in some cases (and surely this must be one of them) to treat an intervening defendant as an original defendant. It is inherent in the exercise of its jurisdiction that a court, once having acquired jurisdiction of the cause and the parties, may proceed to the determination of all matters arising, notwithstanding the failure of the cause upon which jurisdiction attached, in the face of Sec. 48 of the Judicial Code (*Moore* v. *New York Cotton Exchange*, 270 U. S. 593, 608; *General Electric Co.* v. *Marvel*, 287 U. S. 430; *Hurn* v. *Oursler*, 289 U. S. 238). Certainly mere considerations such as the aggressor's selection of the jurisdiction and the defendant, or of "the balance of advantage," ought not to dictate a contrary interpretation of Equity Rule 30 in the absence of anything in its language indicating such interpretation.

The interpretation of Equity Rule 30 adopted by the courts below is inconsistent with the language of that rule. It is opposed to the spirit and purpose of that rule and of Equity Rule 37. It is incompatible with the administration of justice in federal equity cases.

We respectfully submit that petitioner's counterclaim should be permitted to stand and that the decree ordered by the Circuit Court of Appeals for the Second Circuit should be reversed with directions accordingly.

WALLACE R. LANE,
JOHN F. OBERLIN,
Counsel for Petitioner.

APPENDIX.

Equity Rules.

26. JOINDER OF CAUSES OF ACTION. The plaintiff may join in one bill as many causes of action, cognizable in equity, as he may have against the defendant. But when there are more than one plaintiff the causes of action joined must be joint, and if there be more than one defendant the liability must be one asserted against all of the material defendants, or sufficient grounds must appear for uniting the causes of action in order to promote the convenient administration of justice. If it appear that any such causes of action can not be conveniently disposed of together, the court may order separate trials.

30. ANSWER—CONTENTS—COUNTERCLAIM. The defendant by his answer shall set out in short and simple terms his defense to each claim asserted in the bill, omitting mere statements of evidence and avoiding general denials, but specifically admitting, denying or explaining the facts upon which the plaintiff relies, unless he is without knowledge, in which event he shall so state, and this shall be treated as a denial. Averments other than those of value or amount of damage, when not denied, shall be deemed confessed, except as against an infant, lunatic or other person non compos and not under guardianship, but the answer may be amended, by leave of the court or judge, upon reasonable notice, so as to put any averment in issue, when justice requires it. The answer may state as many defenses, in the alternative, regardless of consistency, as the defendant deems essential to his defense.

The answer must state in short and simple form any counterclaim arising out of the transaction which is the subject-matter of the suit, and may, without cross bill, set up any set-off or counterclaim against the plaintiff which might be the subject of an independent suit in equity against him, and such set-off or counterclaim, so

set up, shall have the same effect as a cross-suit, so as to enable the court to pronounce a final decree in the same suit on both the original and the cross-claims.

When in the determination of a counterclaim complete relief can not be granted without the presence of parties other than those to the bill, the court shall order them to be brought in as defendants if they are subject to its jurisdiction. (As amended May 4, 1925.)

31. Reply—When Required—When Cause at Issue. Unless the answer assert a set-off or counterclaim no reply shall be required without special order of the court or judge, but the cause shall be deemed at issue upon the filing of the answer, and any new or affirmative matter therein shall be deemed to be denied by the plaintiff. If the answer include a set-off or counterclaim, the party against whom it is asserted shall reply within ten days after the filing of the answer, unless a longer time be allowed by the court or judge. If the counterclaim is one which affects the rights of other defendants they or their solicitors shall be served with a copy of the same within ten days from the filing thereof, and ten days shall be accorded to such defendants for filing a reply. In default of a reply, a decree pro confesso on the counterclaim may be entered as in default of an answer to the bill.

37. Parties Generally—Intervention. Every action shall be prosecuted in the name of the real party in interest, but an executor, administrator, guardian, trustee of an express trust, a party with whom or in whose name a contract has been made for the benefit of another, or a party expressly authorized by statute, may sue in his own name without joining with him the party for whose benefit the action is brought. All persons having an interest in the subject of the action and in obtaining the relief demanded may join as plaintiffs, and any person may be made a defendant who has or claims an interest adverse to the plaintiff. Any person may at any time be made a party if his presence is necessary or proper to a complete determination of the

cause. Persons having a united interest must be joined on the same side as plaintiffs or defendants, but when anyone refuses to join, he may for such reason be made a defendant.

Anyone claiming an interest in the litigation may at any time be permitted to assert his right by intervention, but the intervention shall be in subordination to, and in recognition of, the propriety of the main proceeding.

English Supreme Court Rules.

Order 16, Rule 13:

> "Where a defendant is added or substituted, the writ of summons shall be amended accordingly and the plaintiff shall, unless otherwise ordered by the court or a judge, file a copy of the writ as amended, and serve the new defendant with such amended writ or notice in lieu of service thereof in the same manner as original defendants are served, and the proceedings shall be continued as if the new defendant had originally been made a defendant." As amended July, 1925.